

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE June 18, 2015

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Armstrong, Iowa for the period October 1, 2013 through September 30, 2014. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible, take steps to reduce, and eventually eliminate, any deficit balances and comply with Chapters 384.24A and 384.25 of the Code of Iowa when entering into loan agreements. The City should also establish procedures to ensure bank and utility reconciliations are completed monthly and are independently reviewed and the Annual Financial Report is accurate.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1421-0303-EP0P.pdf>.

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CITY OF ARMSTRONG
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2014

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City of Armstrong

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2014)</u>		
Marvin Dailey	Mayor	Jan 2014
David Grussing	Council Member	Jan 2014
Jon Larsen	Council Member	Jan 2014
Warren Haeckel	Council Member	(Resigned Oct 2013)
Adrian Hagebock	Council Member	Jan 2016
Donald Leach	Council Member	Jan 2016
Connie Thackery	City Clerk/Treasurer	Indefinite
Christopher Fuhrman	Attorney	Indefinite
<u>(After January 2014)</u>		
Gregory W. Buum	Mayor	Jan 2016
Adrian Hagebock	Council Member	Jan 2016
Donald Leach	Council Member	Jan 2016
Rhett Hiney	Council Member	Jan 2018
Jon Larsen	Council Member	Jan 2018
Wayne Mathine	Council Member	Jan 2018
Connie Thackery	City Clerk/Treasurer	Indefinite
Christopher Fuhrman	Attorney	Indefinite

City of Armstrong



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Armstrong for the period October 1, 2013 through September 30, 2014. The City of Armstrong's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.


9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.


Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Armstrong, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Armstrong, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Armstrong and other parties to whom the City of Armstrong may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Armstrong during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 18, 2014

Detailed Recommendations

City of Armstrong

Detailed Recommendations

For the period October 1, 2013 through September 30, 2014

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Accounting system – performing all general accounting functions and having custody of assets.
 - (2) Cash – preparing bank account reconciliations, initiating cash receipt and disbursement transactions, handling and recording cash and control of petty cash.
 - (3) Investments – record keeping, custody of investments and reconciling earnings.
 - (4) Long-term debt – recording and reconciling.
 - (5) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (6) Utilities – billing, collecting, depositing and posting.
 - (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling, access to credit cards and recording.
 - (8) Payroll – recordkeeping, preparing and distributing.
 - (9) Financial reporting – preparing and reconciling.
 - (10) Journal entries – preparing and journalizing.
 - (11) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

City of Armstrong

Detailed Recommendations

For the period October 1, 2013 through September 30, 2014

- (B) Financial Condition – The General, Tort Liability (sub-General Fund), the Special Revenue, Employee Benefits, the Enterprise, Water Utility and Garbage Funds had deficit balances at September 30, 2014 of \$25,974, \$14,938, \$12,164, \$4,618 and \$34,199, respectively. Additionally, the General Fund borrowed \$335,000 from the Special Revenue, Revolving Loan Fund in previous years. The interfund loan remains unpaid at September 30, 2014. However, the loan was removed from the Monthly City Clerk's Report and City Council approval to forgive the loan could not be located.

Recommendation – The City should investigate alternatives to eliminate the deficits to return these funds to a sound financial condition. In addition, the \$335,000 loan from the Special Revenue, Revolving Loan Fund to the General Fund should be reported on the Monthly City Clerk's Report until it has either been repaid or the City Council has formally forgiven the loan.

- (C) Loan Agreements – During the period reviewed, the City entered into two loan agreements totaling \$279,100 and \$50,000 for infrastructure related to the Suburban Acres Subdivision and to provide for operating disbursements, respectively. The City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures be followed prior to entering into a loan agreement, including publication of intended action and time and place of a public meeting to approve the intended action.

Recommendation – The City should comply with Chapters 384.24A and 384.25 of the Code of Iowa prior to entering into future loan agreements.

- (D) Bank Reconciliations – The cash and investment balances in the Monthly City Clerk's Report were reconciled to bank and investment balances throughout the year. However, for the two months reviewed, bank and book balances did not properly reconcile. A listing of outstanding checks is not maintained and one of six certificates of deposit listed in the bank reconciliation did not agree to the general ledger since interest earned had not been recorded. In addition, the bank reconciliations are not independently reviewed.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled to the Monthly City Clerk's Report and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. A listing of outstanding checks should be maintained and all bank activity, including interest earned on certificates of deposit, should be properly recorded.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled throughout the year and a delinquent account listing was prepared each month. However, certain amounts in the reconciliation could not be traced to supporting records and there was no evidence of independent review.

Recommendation – Procedures should be established to ensure the reconciliation of utility billings, collections and delinquent accounts agrees to supporting records and those records are maintained. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Armstrong

Detailed Recommendations

For the period October 1, 2013 through September 30, 2014

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records.

- (G) Petty Cash – Cash funds on hand at City Hall were not maintained on an imprest basis. The City has not established a set petty cash amount and cash counts are not performed.

Recommendation – The cash funds at City Hall should be maintained on an imprest basis and replenished periodically by check after filing a claim with the petty cash vouchers or receipts attached. The City should establish a set amount of petty cash and counts should be performed periodically to ensure the accuracy of the petty cash.

- (H) Monthly City Clerk’s Report – The September 2014 Monthly City Clerk’s Report does not reflect actual fund balances for many of the City’s funds. Various interfund loans and transfers were not accurately reported in the report, causing inaccurate ending fund balances.

Recommendation – The City should establish procedures to ensure all activity, including interfund loans and transfers, is properly accounted for in the Monthly City Clerk’s Report.

- (I) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public works and community and economic development functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (J) Payment of General Obligation Bonds – Principal and interest on the City’s general obligation sanitary sewer bonds were paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

- (K) Revolving Loan Fund – At September 30, 2014, the City had ten outstanding economic development loans totaling \$100,080 due to the Special Revenue, Revolving Loan Fund. One of the outstanding loans is delinquent by one payment and payments on seven of the loans have not been made for over a year.

Recommendation – The City should consider options for collecting the outstanding delinquent loans.

City of Armstrong

Detailed Recommendations

For the period October 1, 2013 through September 30, 2014

- (L) Local Option Sales Tax (LOST) – The City imposed a local sales tax in the City with receipts to be allocated as follows: 60% for street repair, 10% for recreation, 10% for public safety, 8% for economic development, 5% for the library, 5% for the community center and 2% for senior citizens. Documentation has not been maintained to demonstrate the LOST receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax. During the period reviewed, \$63,354 was disbursed from the Special Revenue, LOST Fund for annual debt payments on debt related to water utility, storm sewer and preparation work for blacktopping in a new subdivision. In accordance with the referendum provisions, this may not be an allowable use of LOST receipts.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the LOST referendum. The City should consult legal counsel to determine whether any LOST receipts were disbursed for unallowable purposes. The City should reimburse the Special Revenue, LOST Fund for current and past unallowable uses, if any, of LOST receipts.

- (M) Disbursement Approval – One disbursement tested was not approved by the City Council.

Recommendation – All disbursements should be approved by the City Council.

- (N) Transfer Approval – Certain interfund transfers were not approved by the City Council.

Recommendation – All interfund transfers should be approved by the City Council. Approval should be documented in the minutes or approved budget, as applicable.

- (O) Payroll – Annual salary increases for all City employees were approved based upon a percentage and the actual approved wages were not documented in the City Council meeting minutes.

Timesheets were not available for two of three employees tested.

Recommendation – To increase control over actual wages paid, salary/wage rate increases should be documented in the City Council meeting minutes by recording the new, approved rate, not just the percentage increase. Timesheets should be completed, reviewed, approved and maintained for all City employees.

- (P) Receipt Tracking – Receipts are entered into the City's accounting system from the deposits listed on the monthly bank statements.

Recommendation – Receipts should be recorded in the City's accounting system immediately upon collection to provide control over the proper collection and recording of all money.

- (Q) Credit Card – The City has a credit card for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of the City's credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to substantiate charges.

City of Armstrong

Detailed Recommendations

For the period October 1, 2013 through September 30, 2014

- (R) Information System – The following weaknesses in the City’s computer based system were noted:

The City does not have written policies for:

- (1) Requiring the use of a user id or passwords.
- (2) Requiring password privacy and confidentiality.
- (3) Requiring password changes every 60 - 90 days.
- (4) Maintaining password history to prevent employees from using the same password.
- (5) Ensuring only software licensed to the City is installed on its computers.
- (6) Personal use of City equipment and software.
- (7) Usage of the internet.

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City’s control over its computer based systems.

- (S) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

City of Armstrong

Staff

This agreed-upon procedures engagement was performed by:

Brian Brustkern, CPA, Manager
Kelly L. Hilton, Senior Auditor
Miranda A. Shipman, Staff Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State